

**BOARD OF WATERWORKS AND
ELECTRIC LIGHT AND POWER PLANT TRUSTEES - ATLANTIC, IOWA
D/B/A ATLANTIC MUNICIPAL UTILITIES**

**INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2013 AND 2012

ATLANTIC MUNICIPAL UTILITIES

Contents

	<u>Page</u>	
OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT		2
MANAGEMENT'S DISCUSSION AND ANALYSIS		4
	<u>Electric Department</u>	<u>Water Department</u>
FINANCIAL STATEMENTS:		
Statements of net position	5	9
Statements of income and changes in net position	6	10
Statements of cash flows	7	11
Notes to financial statements	13	13
REQUIRED SUPPLEMENTARY INFORMATION:		
Budgetary Comparison Schedule	31	31
OTHER SUPPLEMENTARY INFORMATION:		
Schedule supporting statements of net position:		
Revenue bonds/notes	32	--
Schedules supporting statements of income:		
Operating revenue	33	33
Operating expenses	34	36
Comparative information:		
Comparative statements of income	38	40
Comparative summaries of service distributed and billed	39	41
Net income available for debt service	42	--
COMMENTS AND RECOMMENDATIONS:		
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance etc.	43	43
Schedule of Findings	45	45

ATLANTIC MUNICIPAL UTILITIES
Officials
December 31, 2013

<u>Trustees</u>	<u>Term Expires</u>
Lawrence E. Turner, Chairperson	April, 2019
Keith C. Stork, Vice-Chairperson	April, 2015
Frank W. Greiner	April, 2015
Sharon L. Winchell (resigned December, 2013)	
Joyce A. Jensen	April, 2017
Joanne Lorence (appointed December, 2013)	April, 2017

Management Personnel

General Manager
Steve J. Tjepkes

Comptroller
Jennifer Saathoff

Director of Electric Operations
Gregory J. Smith

Director of Water Operations
Jon H. Martens

Gronewold, Bell, Kyhnn & Co. P.C.

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DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Atlantic Municipal Utilities
Atlantic, Iowa

Report on the Financial Statements

We have audited the accompanying statements of net position of Atlantic Municipal Utilities (Electric Department and Water Department) (a component unit of the City of Atlantic, Iowa) as of December 31, 2013 and 2012 and the related statements of income and changes in net position, and cash flows for the years then ended, and related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Utilities' management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees
Atlantic Municipal Utilities

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Atlantic Municipal Utilities as of December 31, 2013 and 2012 and the results of its activities, changes in net position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 4 through 4f and on page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Atlantic Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended December 31, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information on pages 1 and 32 through 42 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated March 7, 2014 on our consideration of Atlantic Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Gamerhoff, Ben, Kyhn & Co. P.C.

Atlantic, Iowa
March 7, 2014



Atlantic Municipal Utilities

Management's Discussion and Analysis Audited Financial Statements Years Ended December 31, 2013 and 2012

This section of the Utility's annual Financial Statements presents an analysis of the Utility's financial performance during the calendar year ended December 31, 2013. This information is presented in conjunction with the audited basic financial statements, which follow this section. The Utility is organized into two operating departments, electric and water. This discussion and analysis points out the highlights of each department.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2013

- The Utility's net position increased as a result of 2013 operating income and non-operating revenues. The Electric Department's net position increased by \$1,059,273, or 4.8%, from \$22,113,770 to \$23,173,043. The Water Department's net position increased by \$110,237, or 2.6%, from \$4,233,283 to \$4,343,520.
- An Electric rate increase of approximately 5.0% for all customer classes was approved in December 2013, effective February 2014.
- An Electric rate increase of approximately 7.5% for all customer classes was approved in December 2012, effective February 2013.
- A Water rate increase of approximately 5.0% for all customer classes was approved in December 2013, effective February 2014.
- A Water rate increase of approximately 10% for all customer classes was approved in December 2012, effective February 2013.
- Electric Department operating revenues increased 12.4% to \$9,992,961, while operating expenses increased 5.9% to \$9,091,891.
- Water Department operating revenues increased 5.7% to \$1,390,955, while operating expenses increased 7.0% to \$1,287,944.
- The Electric Department delivered approximately 108,075,000 kilowatt hours (kWh) of electricity to its retail customers in 2013, compared to approximately 106,709,000 kWh in 2012, a 1.3% increase.
- The Water Department delivered approximately 267,238,000 gallons of water to its retail customers in 2013, compared to approximately 281,627,000 gallons in 2012, a 5.1% decrease.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements of the Utility report information utilizing generally accepted accounting practices for electric and water utilities. In general, these practices follow the Federal Energy Regulatory Commission's (FERC) prescribed Uniform System of Accounts for the Electric Department. Practices for the Water Department follow suggested guidelines from the National Association of Regulatory Commissioners (NARUC). There are three major reports for each Department.

The *Statements of Net Position* include each Department's assets and liabilities, and provide information about the nature and amounts of investments in resources (assets) and the obligations to Utility creditors (liabilities). They also provide the basis for making a variety of financial assessments about the Utility's financial position. Supporting schedules of the Department's debt are included in the "Other Supplementary Information" section of the report.

The *Statements of Income and Changes in Net Position* provide information about each Department's revenues and expenses. This report measures the success of the Department's operations. It can be used to determine whether or not the Department has successfully recovered all its costs through its rates, fees and other forms of revenues. It also provides a measure of the Department's, and Utility's, profitability and creditworthiness. Details of the Department's revenues and expenses are included in the "Other Supplementary Information" section of the report. This statement also provides information about the equity, or net position, of the Department.

The *Statements of Cash Flows* provide information about each Department's cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities and investing activities. These statements indicate where each Department's cash came from, how it was used, and the change in cash balances during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Utilities' accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events.

Additional information regarding AMU's financial and operating status are contained in the *Required Supplementary Information*, and *Other Supplementary Information*. These sections of the report provide information including comparisons of budgeted versus actual expenditures, details regarding long-term debt outstanding, and a number of supporting schedules.

The *Comments and Recommendations* section of the report comments on AMU's internal control and compliance with various state statutes.

CONDENSED FINANCIAL INFORMATION – ELECTRIC DEPARTMENT

The following condensed financial information of the Electric Department serves as the key financial data and indicators for management, monitoring, and planning.

Condensed Statements of Net Position

	Electric Department	
	2013	2012
Current Assets	\$ 2,961,486	\$ 3,229,041
Capital Assets, net	22,367,386	22,649,819
Other Assets	4,897,953	3,707,886
Total Assets	<u>\$ 30,226,825</u>	<u>\$ 29,586,746</u>
Current Liabilities	\$ 1,487,120	\$ 1,433,929
Other Liabilities	291,662	219,047
Long-Term Debt	5,275,000	5,820,000
Total Liabilities	<u>7,053,782</u>	<u>7,472,976</u>
Net Investment in Capital Assets	\$ 16,535,359	\$ 16,269,842
Restricted	1,841,235	1,471,151
Unrestricted	4,796,449	4,372,777
Total Net Position	<u>23,173,043</u>	<u>22,113,770</u>
Total Liabilities and Net Position	<u>\$ 30,226,825</u>	<u>\$ 29,586,746</u>

Condensed Statements of Income and Changes in Net Position

	Electric Department	
	2013	2012
Sale of Electricity	\$ 8,757,000	\$ 8,152,939
Other Operating Revenue	1,235,961	739,046
Total Operating Revenue	<u>\$ 9,992,961</u>	<u>\$ 8,891,985</u>
Electric Production & Purchased Power	\$ 4,208,821	\$ 3,898,453
Transmission & Distribution	1,956,319	1,673,382
Administrative & Accounting	1,585,014	1,689,383
Provision for Depreciation	1,341,737	1,327,711
Total Operating Expenses	<u>\$ 9,091,891</u>	<u>\$ 8,588,929</u>
Income from Operations	\$ 901,070	\$ 303,056
Grant Revenue	395,921	213,601
Interest Expense	(243,304)	(263,624)
Other, net	5,586	24,384
Total Non-Operating Revenue (Expense)	<u>\$ 158,203</u>	<u>\$ (25,639)</u>
Change in Net Position	\$ 1,059,273	\$ 277,417
Net Position, Beginning of Year	<u>22,113,770</u>	<u>21,836,353</u>
Net Position, End of Year	<u>\$ 23,173,043</u>	<u>\$ 22,113,770</u>

FINANCIAL ANALYSIS OF THE ELECTRIC DEPARTMENT

Electric Department

Current assets decreased \$267,555, or 8.3%, to \$2,961,486 in 2013. Cash decreased \$370,431 as excess cash generated from operations was transferred to reserve funds, which are included in Board Designated Funds on the Statement of Net Position. Receivables increased \$331,640 to \$844,870 at December 31, 2013. Customer accounts receivable increased \$178,385 primarily due to an increase of 24% in retail kWh sales in the month of December along with a rate increase of 7.5% compared to 2012. In addition, accounts receivable from the Midcontinent Independent System Operator (MISO) increased \$153,255 as energy sales into the MISO market increased in the month of December when the market price was approximately 16% higher than a year ago. Also within current assets, inventory decreased \$96,838 due to a decrease in coal inventories at Walter Scott Generating Station Unit 3 (WS#3), and the current portion of an internal note due from the Water Department decreased \$135,571 as the terms of the note were restructured during the year.

Annual capital expenditures totaled \$1,071,479 in 2013. Depreciation expense and net capital retirements totaled \$1,353,912; thus Net Capital Assets decreased by \$282,433. All of AMU's capital additions were funded with cash generated from operations, and no additional debt was issued.

Other Assets increased by \$1,190,067, or 32.1%, to \$4,897,953 in 2013. The utility was awarded a grant of \$300,000 from the USDA Rural Economic Development Loan & Grant program to be used for economic development purposes. The Electric Department provided a \$60,000 match to the grant. The \$360,000 fund is included with Restricted Funds on the Statement of Net Position. Board designated funds increased by \$693,650, to \$1,920,661, as excess cash generated from operations was transferred to these reserve funds. The long-term portion of the interest bearing note due from the Water Department increased \$135,571 as the terms of the note were restructured during the year.

Current Liabilities increased \$53,191, or 3.7%, to \$1,487,120.

Other Liabilities increased \$72,615 to \$291,662. The Utility implemented General Accounting Standards Board (GASB) Statement No. 45 regarding Other Post-Employment Benefits (OPEB) in 2013. An OPEB expense of \$49,492 was recorded in 2013, and is included with Other Liabilities on the Statement of Net Position.

Total long-term debt of the Electric Department decreased from \$5,820,000 to \$5,275,000, a decline of \$545,000.

Total sales of electricity increased \$604,061, or 7.4%, in 2013. Retail electricity sales increased \$465,692, or 6.8%, with retail kWh sales increasing 1.2%. A retail rate increase of approximately 7.5% was put into effect February 2013. Sales to other utilities increased \$127,418, or 13.6%. The Utility sells generation from its share of the jointly owned W/S#3 plant into the MISO market and purchases any local power needs above current purchase power contract requirements from MISO. Sales to other utilities are shown net of these MISO power purchases.

Other operating revenue increased by \$496,915, or 67.2%. The Utility is a transmission owner in MISO and receives revenue from MISO for its share of transmission revenue collected by MISO. These transmission revenue collections increased from \$662,703 to \$1,126,347 in 2013 due to significant capital improvements in the Spruce Substation along with 69 kV transmission assets becoming part of the cost reimbursement formula in MISO. Increased monthly transmission payments were received for a partial year in 2012, and a full year in 2013.

Electric production & purchased power expenses increased \$310,368, or 8.0%, to \$4,208,821 in 2013. Increased expenses include increased fuel costs at W/S#3 (\$233,486) and increased production maintenance expenses (\$48,548) at the Atlantic facilities.

Transmission & Distribution expenses increased \$282,937, or 16.9%, to \$1,956,319 in 2013. Additional expenses include increased MISO transmission charges (\$128,004), increased MISO congestion and reliability charges (\$63,534) and increased distribution maintenance expenses (\$105,763).

Non-operating revenues (expenses) netted to a \$158,203 addition to income from operations compared to a \$25,639 deduction to income from operations in 2012. Non-operating revenues included \$395,921 of grant revenue. A \$300,000 grant was received from the USDA Rural Economic Development Loan & Grant program to be used for economic development purposes. In addition, \$95,921 in grant funds was received to install advanced electric meters and the related communication network.

The Electric Department's change in net position for the year was \$1,059,273, compared to a net change of \$277,417 in 2012, an improvement of \$781,856.

CONDENSED FINANCIAL INFORMATION – WATER DEPARTMENT

The following condensed financial information of the Water Department serves as the key financial data and indicators for management, monitoring, and planning.

Water Department

Condensed Statements of Net Position

	Water Department	
	2013	2012
Current Assets	\$ 415,424	\$ 496,728
Capital Assets, net	4,445,684	4,300,081
Other Assets	769,145	780,041
Total Assets	\$ 5,630,253	\$ 5,576,850
Current Liabilities	\$ 372,119	\$ 569,370
Other Liabilities	68,188	63,342
Long-Term Debt	846,426	710,855
Total Liabilities	1,286,733	1,343,567
Net Investment in Capital Assets	\$ 3,514,285	\$ 3,356,034
Restricted	998,982	1,025,981
Unrestricted	(169,747)	(148,732)
Total Net Position	4,343,520	4,233,283
Total Liabilities and Net Position	\$ 5,630,253	\$ 5,576,850

Condensed Statements of Income and Changes in Net Position

	Water Department	
	2013	2012
Sale of Water	\$ 1,308,701	\$ 1,289,602
Other Operating Revenue	82,254	26,363
Total Operating Revenue	\$ 1,390,955	\$ 1,315,965
Source of Supply, Pumping & Treatment	\$ 227,565	\$ 188,863
Distribution	337,261	300,187
Administrative & Accounting	552,946	515,361
Provision for Depreciation	170,172	199,492
Total Operating Expenses	\$ 1,287,944	\$ 1,203,903
Income from Operations	\$ 103,011	\$ 112,062
Grant Revenue	11,117	7,359
Interest Expense	(6,549)	(10,460)
Other, net	2,313	(3,704)
Total Non-Operating Revenue (Expense)	\$ 6,881	\$ (6,805)
Change in Net Position	\$ 109,892	\$ 105,257
Contributions in Aid of Construction	345	360
Net Position, Beginning of Year	4,233,283	4,127,666
Net Position, End of Year	\$ 4,343,520	\$ 4,233,283

FINANCIAL ANALYSIS OF THE WATER DEPARTMENT

Water Department

Current assets decreased \$81,304, or 16.4%, to \$415,424 in 2013. Cash decreased \$41,684 as cash was used for capital improvement projects including a new SCADA system for the water treatment plant. Receivables decreased \$43,673 to \$178,022, primarily due to a decrease in customer sewer accounts receivable. The Utilities act as the billing and collection agent for the City of Atlantic for customer sewer charges and receives a fee for providing these services.

Annual capital expenditures totaled \$320,477 in 2013. Depreciation expense and capital retirements totaled \$174,874, thus Net Capital Assets increased by \$145,603. The Water Department's capital additions were funded with cash and from funds made available by restructuring the note payable to the Electric Department.

Other assets decreased by \$10,896, to \$769,145. Total assets increased by \$53,403, or 1.0%, to \$5,630,253.

Current liabilities decreased \$197,251 to \$372,119. The current portion of an internal note due to the Electric Department decreased \$135,571, to \$84,429, as the terms of the note were restructured during the year. In addition, the sewer accounts payable to the City of Atlantic decreased \$47,679, to \$239,273.

The long-term portion of the interest bearing note due to the Electric Department increased \$135,571 as the terms of the note were restructured to extend repayment of the note over the next five years.

Total sales of water increased \$19,099, or 1.5%, in 2013. Water gallon sales decreased 5.1% to 267.2 million gallons sold. Water sales had increased by 14%, with 281.6 million gallons sold in 2012, due to dry weather conditions. A retail rate increase of approximately 10.0% was put into effect February 2013.

Other operating revenue increased by \$55,891, to \$82,254 in 2013. Net contract revenue increased \$44,448 primarily due to increasing the annual fee charged to the City of Atlantic for providing sewer billing and collection services. The annual charge increased from \$3,731 in 2012 to \$37,147 in 2013.

Total operating expenses for the Water Department increased \$84,041, or 7.0% in 2013. Increased expenses include additional well rehabilitation costs and water main maintenance and repair costs.

Non-operating revenues (expenses) netted to a \$6,881 addition to income from operations compared to a \$6,805 deduction to income from operations in 2012. Non-operating revenues in 2013 included \$11,117 of grant revenue to install energy efficient variable frequency drives on pumps used in the water system.

Net Income for the year was \$109,892, compared to \$105,257 in 2012.

The Water Department's change in net position for the year (including contributions in aid of construction) was \$110,237, compared to a net change of \$105,617 in 2012, an improvement of \$4,620.

Contacting Financial Management

This financial report is designed to provide AMU's ratepayers and creditors with a general overview of Atlantic Municipal Utilities' finances and operations. If you have questions about this report, contact AMU's Comptroller at AMU, P.O. Box 517; 15 West Third Street; Atlantic, Iowa 50022; or e-mail jsaathoff@amu1.net or call 712-243-1395.

The General Manager can be contacted at the same address and phone, or by e-mail at stjepkes@amu1.net.

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Statements of Net Position
December 31,

ASSETS

	<u>2013</u>	<u>2012</u>
Utility Plant :		
Depreciable capital assets	\$ 20,439,403	\$ 19,946,644
Non-depreciable capital assets	<u>1,927,983</u>	<u>2,703,175</u>
Total utility plant	22,367,386	22,649,819
Special Purpose Funds:		
Restricted funds	1,841,235	1,471,151
Board designated funds	<u>1,920,661</u>	<u>1,227,011</u>
Total special purpose funds	3,761,896	2,698,162
Current Assets:		
Cash	1,079,656	1,450,087
Receivables, less allowance for doubtful accounts (\$16,000 in 2013 and 2012)	844,870	513,230
Other receivables	65,237	79,100
Inventory	825,079	921,917
Prepaid expenses	61,671	44,163
Current due from Water Department	<u>84,973</u>	<u>220,544</u>
Total current assets	2,961,486	3,229,041
Other Assets:		
Due from Water Department:		
Non-interest bearing note	495,855	495,855
Interest bearing note	350,571	215,000
Electric project investments	248,727	248,727
Other	<u>40,904</u>	<u>50,142</u>
Total other assets	1,136,057	1,009,724
	<u>\$ 30,226,825</u>	<u>\$ 29,586,746</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	<u>2013</u>	<u>2012</u>
Long-Term Debt, less current maturities	\$ 5,275,000	\$ 5,820,000
Current Liabilities:		
Current maturities of long-term debt	545,000	525,000
Accounts payable	526,235	503,878
Accrued employee compensation	189,486	173,825
Accrued payroll taxes and withholdings	34,956	33,227
Accrued property taxes	122,762	126,575
Other accrued taxes	9,484	7,305
Accrued interest	59,197	64,119
Total current liabilities	<u>1,487,120</u>	<u>1,433,929</u>
Other Liabilities:		
Consumer deposits	92,448	88,707
Reserve for employees' retirement	149,722	130,340
Accrued OPEB	49,492	--
Total other liabilities	<u>291,662</u>	<u>219,047</u>
Total liabilities	7,053,782	7,472,976
Net Position:		
Invested in capital assets net of related debt	16,535,359	16,269,842
Restricted - expendable	1,841,235	1,471,151
Unrestricted	4,796,449	4,372,777
Total net position	<u>23,173,043</u>	<u>22,113,770</u>
	<u>\$ 30,226,825</u>	<u>\$ 29,586,746</u>

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Statements of Income and Changes in Net Position
Year ended December 31,

	<u>2013</u>	<u>2012</u>
Operating Revenue:		
Retail electricity sales	\$ 7,311,614	\$ 6,845,923
Services provided to the City	379,992	369,040
Sales to other utilities	<u>1,065,394</u>	<u>937,976</u>
Total sale of electricity	8,757,000	8,152,939
Other operating revenue	<u>1,235,961</u>	<u>739,046</u>
Total operating revenue	9,992,961	8,891,985
Operating Expenses:		
Electric production	2,703,555	2,390,677
Purchased power	1,505,266	1,507,776
Transmission	984,526	924,963
Distribution	971,793	748,419
Administrative and accounting	1,585,014	1,689,383
Provision for depreciation	<u>1,341,737</u>	<u>1,327,711</u>
Total operating expenses	9,091,891	8,588,929
Income from Operations	901,070	303,056
Other Income and (Deductions):		
Income from investments	26,999	34,841
Grant revenue	95,921	213,601
USDA grant revenue	300,000	--
Interest expense on revenue bonds	(241,709)	(261,146)
Loss on disposal of equipment	(12,175)	(412)
Other interest expense	(1,595)	(2,478)
Amortization	<u>(9,238)</u>	<u>(10,045)</u>
Other income (deductions), net	158,203	(25,639)
Net Income	1,059,273	277,417
Net Position, Beginning of Year	<u>22,113,770</u>	<u>21,836,353</u>
Net Position, End of Year	• <u>\$ 23,173,043</u>	<u>\$ 22,113,770</u>

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Statements of Cash Flows
Year ended December 31,

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from consumers	\$ 8,421,741	\$ 7,974,317
Cash paid to suppliers	(6,103,122)	(5,788,224)
Cash paid to employees	(1,429,646)	(1,321,603)
Other operating revenue	<u>1,230,624</u>	<u>736,439</u>
Net cash provided by operating activities	2,119,597	1,600,929
Cash flows from noncapital financing activities:		
Consumer deposits, net	3,741	8,485
Interest paid	<u>(1,595)</u>	<u>(2,478)</u>
Net cash provided by noncapital financing activities	2,146	6,007
Cash flows from capital and related financing activities:		
Principal payments	(525,000)	(505,000)
Interest paid on revenue bonds	(246,631)	(265,817)
Capital expenditures	(1,094,429)	(1,385,964)
Capital grants	<u>110,621</u>	<u>198,901</u>
Net cash used in capital and related financing activities	(1,755,439)	(1,957,880)
Cash flows from investing activities:		
Special purpose fund investments		
Acquisitions	--	(180,000)
Proceeds	1,306	778,984
Revolving loan advance	(121,003)	--
Revolving loan payments received	6,000	--
Operating and capital reserves		
Proceeds	--	181,834
USDA revolving loan grant	300,000	--
Water department note proceeds	--	205,000
Electric project investments	--	4,999
Income from investments	<u>26,999</u>	<u>35,097</u>
Net cash provided by investing activities	213,302	1,025,914
Net increase in cash	579,606	674,970
Cash, beginning of year	<u>2,614,621</u>	<u>1,939,651</u>
Cash, end of year	<u>\$ 3,194,227</u>	<u>\$ 2,614,621</u>

(continued next page)

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Statements of Cash Flows - Continued
Year ended December 31,

	<u>2013</u>	<u>2012</u>
Reconciliation of cash to the statements of net position:		
Cash in current assets	\$ 1,079,656	\$ 1,450,087
Cash in special purpose funds	<u>2,114,571</u>	<u>1,164,534</u>
Total cash	<u>\$ 3,194,227</u>	<u>\$ 2,614,621</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 901,070	\$ 303,056
Adjustments to reconcile income from operations to net cash provided by operating activities		
Provision for depreciation	1,341,737	1,327,711
Uncollectible accounts	15,797	7,610
Reserve for employees' retirement	19,382	17,340
Accrued OPEB	49,492	--
Change in assets and liabilities		
Receivables	(348,274)	(62,612)
Inventory	96,838	(75,641)
Prepaid expenses	(17,508)	(3,438)
Accounts payable, trade	45,307	36,082
Accrued employee compensation	15,661	58,825
Accrued payroll taxes and withholdings	1,729	(4,905)
Accrued property taxes	(3,813)	(1,425)
Other accrued taxes	<u>2,179</u>	<u>(1,674)</u>
Total adjustments	<u>1,218,527</u>	<u>1,297,873</u>
Net cash provided by operating activities	<u>\$ 2,119,597</u>	<u>\$ 1,600,929</u>

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Statements of Net Position
December 31,

ASSETS

	<u>2013</u>	<u>2012</u>
Utility Plant:		
Depreciable capital assets	\$ 4,375,983	\$ 4,221,328
Non-depreciable capital assets	<u>69,701</u>	<u>78,753</u>
Total utility plant	4,445,684	4,300,081
Special Purpose Funds:		
Board designated funds	769,145	780,041
Current Assets:		
Cash	144,967	186,651
Receivables, less allowance for doubtful accounts (\$5,000 in 2013 and 2012)	178,022	221,695
Materials and supplies inventory	70,603	78,473
Prepaid expenses	<u>21,832</u>	<u>9,909</u>
Total current assets	<u>415,424</u>	<u>496,728</u>
	 <u>\$ 5,630,253</u>	 <u>\$ 5,576,850</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	<u>2013</u>	<u>2012</u>
Long-Term Debt, less current maturities:		
Due to Electric Department	\$ 846,426	\$ 710,855
Current Liabilities:		
Current due to Electric Department	84,973	220,544
Accounts payable:		
Trade	2,285	8,880
Due to City - sewer	239,273	286,952
Accrued employee compensation	33,219	43,343
Accrued payroll taxes and withholdings	8,063	5,860
Other accrued taxes	4,306	3,791
Total current liabilities	<u>372,119</u>	<u>569,370</u>
Other Liabilities:		
Consumer deposits	18,394	18,733
Reserve for employees' retirement	37,421	44,609
Accrued OPEB	12,373	--
Total other liabilities	<u>68,188</u>	<u>63,342</u>
Total liabilities	1,286,733	1,343,567
Net Position (Deficits):		
Invested in capital assets, net of related debt	3,514,285	3,356,034
Contributions in aid of construction	998,982	1,025,981
Unrestricted	(169,747)	(148,732)
Total net position	<u>4,343,520</u>	<u>4,233,283</u>
	<u>\$ 5,630,253</u>	<u>\$ 5,576,850</u>

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Statements of Income and Changes in Net Position
Year ended December 31,

	<u>2013</u>	<u>2012</u>
Operating Revenue:		
Sale of water:		
Residential	\$ 738,816	\$ 700,084
Commercial	425,430	419,168
Services provided to the City	<u>144,455</u>	<u>170,350</u>
Total sale of water	1,308,701	1,289,602
Other operating revenue	<u>82,254</u>	<u>26,363</u>
Total operating revenue	1,390,955	1,315,965
Operating Expenses:		
Source of supply	46,764	37,476
Pumping	60,982	47,013
Water treatment	119,819	104,374
Distribution	337,261	300,187
Administrative and accounting	552,946	515,361
Provision for depreciation	<u>170,172</u>	<u>199,492</u>
Total operating expenses	1,287,944	1,203,903
Income from Operations	103,011	112,062
Other Income and (Deductions):		
Income from investments	7,301	7,742
Capital grants	11,117	7,359
Interest expense on note and bonds	(6,525)	(9,343)
Other interest expense	(24)	(1,117)
Amortization	--	(736)
Loss on disposal of equipment	(4,988)	(10,710)
Other income (deductions), net	<u>6,881</u>	<u>(6,805)</u>
Net Income	109,892	105,257
Contributions in Aid of Construction	<u>345</u>	<u>360</u>
Increase in Net Position	110,237	105,617
Net Position, Beginning of Year	<u>4,233,283</u>	<u>4,127,666</u>
Net Position, End of Year	<u>\$ 4,343,520</u>	<u>\$ 4,233,283</u>

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Statements of Cash Flows
Year ended December 31,

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from consumers	\$ 1,388,446	\$ 1,255,951
Cash paid to suppliers	(908,632)	(684,535)
Cash paid to employees	(291,842)	(287,798)
Other operating revenue	<u>80,984</u>	<u>25,441</u>
Net cash provided by operating activities	268,956	309,059
Cash flows from noncapital financing activities:		
Consumer deposits, net	(339)	1,228
Interest paid	<u>(24)</u>	<u>(1,117)</u>
Net cash provided by (used in) noncapital financing activities	(363)	111
Cash flows from capital and related financing activities:		
Capital grants	11,117	7,359
Principal payments	--	(205,000)
Interest paid on revenue bonds	(6,525)	(9,599)
Capital expenditures	(333,411)	(229,248)
Contributions in aid of construction	<u>345</u>	<u>360</u>
Net cash used in capital and related financing activities	(328,474)	(436,128)
Cash flows from investing activities:		
Special purpose fund investments:		
Proceeds	126	--
Income from investments	<u>7,301</u>	<u>7,742</u>
Net cash provided by investing activities	<u>7,427</u>	<u>7,742</u>
Net decrease in cash	(52,454)	(119,216)
Cash, beginning of year	<u>465,001</u>	<u>584,217</u>
Cash, end of year	<u>\$ 412,547</u>	<u>\$ 465,001</u>
Reconciliation of cash to the statements of net position:		
Cash in current assets	\$ 144,967	\$ 186,651
Cash in special purpose funds	<u>267,580</u>	<u>278,350</u>
Total cash	<u>\$ 412,547</u>	<u>\$ 465,001</u>

(continued next page)

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Statements of Cash Flows - Continued
Year ended December 31,

	<u>2013</u>	<u>2012</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 103,011	\$ 112,062
Adjustments to reconcile income from operations to net cash provided by operating activities		
Provision for depreciation	170,172	199,492
Uncollectible accounts	5,317	2,534
Reserve for employees' retirement	(7,188)	(9,391)
Accrued OPEB	12,373	--
Change in assets and liabilities		
Receivables	38,356	30,002
Materials and supplies inventory	7,870	(7,078)
Prepaid expenses	(11,923)	(357)
Accounts payable:		
Trade	6,053	(16,006)
Due to City - sewer	(47,679)	(808)
Accrued employee compensation	(10,124)	4,343
Accrued payroll taxes and withholdings	2,203	(5,509)
Other accrued taxes	515	(225)
Total adjustments	<u>165,945</u>	<u>196,997</u>
Net cash provided by operating activities	<u>\$ 268,956</u>	<u>\$ 309,059</u>

The accompanying notes are an integral part of these statements.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Board of Waterworks and Electric Light and Power Plant Trustees - Atlantic, Iowa operates under the name, Atlantic Municipal Utilities (Utilities or Utility). It is made up of two enterprise funds (departments) and is a component unit of the City of Atlantic, Iowa (City). It was instituted to provide water and electric service to residents of the City and the surrounding area. The Utilities are operated as a separate entity under the direction of a Board of Trustees. The members of the Board are appointed by the Mayor and approved by the City Council.

The financial positions and operations of the two departments are accounted for and reported separately in these financial statements. The Utilities report in accordance with Governmental Accounting Standards and Uniform Systems of Accounts prescribed by the Federal Energy Regulatory Commission and the National Association of Regulatory Utility Commissioners.

2. Measurement Focus and Basis of Accounting

The Utilities maintain their financial records on the accrual basis, which is the basis for the financial statements. The accrual basis of accounting recognizes revenues when earned rather than received. Expenses are recognized when incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses for the Utilities include the cost of sales and services, administrative expense and depreciation on capital assets.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

4. Utility Plant and Depreciation

The straight-line method is used for computing depreciation with lives on machinery and equipment ranging from five to thirty-five years and lives on buildings of fifty years. Cost of labor, materials, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties in efficient operating condition are charged to expense. Utility plant accounts are charged with the cost of improvements and replacements of the plant.

Water contributions in aid of construction represents the actual cost of property contributed to the water utility and nonrefundable payments received from consumers which are used to partially offset the cost of the construction of additional plant. The cost of depreciation on plant acquired through this process is included in depreciation expense. The balance in water contributions in aid of construction is amortized over a period equal to the estimated useful life of the related contributed asset.

5. Accounts Receivable and Revenue Recognition

Billings for electric and water revenues are rendered monthly on a cyclical basis. The Utilities do not record unbilled revenues representing estimated consumption for the period between the last billing date and the end of the fiscal year.

6. Inventory Valuation

Inventories (materials, supplies and fuel) are valued at the lower of cost or market. Cost is determined on a first-in, first-out method for materials and supplies and a weighted average basis for fuel.

7. Investments

Investments are carried at fair value except for investments in debt securities with maturities of less than one year at the time of purchase. These investments are stated at amortized cost, which approximates fair value. Securities traded on a national or international exchange are valued at the reported sales price and current exchange rates at year end. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in other income when earned.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

8. Purpose of Special Funds

The Utilities have set aside certain assets for specific purposes. The board designated funds represent money designated by the Board of Trustees to be used in the payment of certain potential costs as identified in Note D. The electric revenue bond funds, as discussed in Note D, are the result of requirements established in bond issue documents. Use of restricted or unrestricted resources for individual projects is determined by the Utility Board of Trustees based on the facts regarding each specific situation.

9. Compensated Absences

Utility employees earn vacation hours at varying rates depending on years of service. Vacation time accumulates to a maximum of 200 hours. Any excess over 200 hours is lost. The computed amount of vacation benefits earned by year end is recorded as part of accrued employee compensation.

10. Property Taxes

According to Iowa law, the Electric Utility is required to pay property taxes on transmission lines and related Utility property outside the Atlantic city limits. The property taxes are recorded as of the date they become a liability.

11. Cash Equivalents

For purposes of the statement of cash flows, the Atlantic Municipal Utilities considers all highly liquid debt instruments purchased with a maturity of less than three months to be cash equivalents.

12. Debt Costs During Periods of Construction

During construction, costs of related debt are accumulated and capitalized. Interest earned on invested debt proceeds is offset against the accumulated costs and the net amount is included in capitalized construction costs. The Utilities had no major construction projects covering more than one year, therefore, no interest was capitalized during 2013 or 2012.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

13. Net Position

Net position of the Utilities is classified in four components. *Contributions in aid of construction* consist of the unamortized cost of contributions from outside parties for construction purposes. *Net position invested in capital assets net of related debt* consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase of construction of those assets. *Restricted net position* is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Utilities, including amounts deposited with trustees as required by revenue bond indentures, discussed in Notes H and I. *Unrestricted net position* is remaining assets that do not meet the definition of *invested in capital assets net of related debt, restricted, or contributions in aid of construction*.

NOTE B - TRANSACTIONS WITH CITY OF ATLANTIC, IOWA

The Utilities provide electric and water services to the City in exchange for a partial payment. However, any payment received must be contributed back to the City at the time of receipt. Metered charges plus any excess costs are recorded as services to the City and included in administrative and accounting expenses as a payment in lieu of tax on these financial statements.

The Utilities act as the billing and collection agent for the City in the collection of sewer fees from the residents of Atlantic. This service is provided for a minimal charge to the City.

Following is a summary of activity between the Utilities and City during the year and amounts due to or receivable from the City at year end:

<u>Electric Department</u>	<u>2013</u>	<u>2012</u>
Metered Charges to City	\$ 316,202	\$ 300,238
Additional Costs Incurred	<u>63,790</u>	<u>68,802</u>
Payment in Lieu of Tax	<u>\$ 379,992</u>	<u>\$ 369,040</u>
<u>Water Department</u>	<u>2013</u>	<u>2012</u>
Metered Charges to City	\$ 15,261	\$ 36,309
Additional Costs Incurred	<u>129,194</u>	<u>134,041</u>
Payment in Lieu of Tax	<u>\$ 144,455</u>	<u>\$ 170,350</u>
Sewer Fees Collected for City	<u>\$ 1,578,207</u>	<u>\$ 1,540,458</u>
Charge to City for Sewer Billing Service	<u>\$ 37,147</u>	<u>\$ 3,733</u>
Account Payable to City	<u>\$ 239,273</u>	<u>\$ 286,952</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2013 and 2012

NOTE C - TRANSACTIONS BETWEEN ELECTRIC AND WATER DEPARTMENTS

Certain administrative costs are split between the Electric and Water Departments based on a formula applied consistently throughout the years. Other costs and all revenues are separately identified and accounted for within each Department.

Following is information about interdepartment transactions and amounts due between the Electric and Water Departments at December 31:

	<u>2013</u>	<u>2012</u>
Electric sales to Water	\$ <u>48,910</u>	\$ <u>38,650</u>
Water sales to Electric	\$ <u>1,166</u>	\$ <u>489</u>
Interest income (Electric) and expense (Water) during the year	\$ <u>6,525</u>	\$ <u>9,344</u>
Non-interest bearing note due to Electric from Water Department	\$ <u>495,855</u>	\$ <u>495,855</u>
Interest bearing note due to Electric from Water Department	\$ 435,000	\$ 435,000
Less current portion	<u>84,429</u>	<u>220,000</u>
	<u>\$ 350,571</u>	<u>\$ 215,000</u>
Current portion of interest bearing note due to Electric from Water Department	\$ 84,429	\$ 220,000
Interest due to Electric from Water Department	<u>544</u>	<u>544</u>
Current due to Electric from Water Department	<u>\$ 84,973</u>	<u>\$ 220,544</u>

The Electric Department non-interest bearing note receivable from the Water Department represents a temporary transfer of funds as part of the financing for a water improvement project. The note is non-interest bearing and is due in 2022. It is subordinate to any bonds or other debt obligations payable from revenues of the Water Department.

See Note I for details of the interest bearing note due to Electric from Water.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2013 and 2012

NOTE D - SPECIAL PURPOSE FUNDS

Restricted and board designated net assets are available for the following purposes:

Electric Department

	<u>2013</u>	<u>2012</u>
Restricted by Bond Resolution for:		
Payment of principal and interest	\$ 1,181,203	\$ 1,171,151
Capital improvements	300,000	300,000
Restricted by Grant Agreement for:		
Revolving loan fund	<u>360,032</u>	<u>--</u>
Total restricted	<u>\$ 1,841,235</u>	<u>\$ 1,471,151</u>
Board Designated for:		
Unforeseen disasters	\$ 350,000	\$ 350,000
Production plant repairs and capital expenditures	1,050,186	501,094
Equipment replacement	300,000	150,000
Employee retirement	150,375	150,625
Funding of bond requirements	<u>70,100</u>	<u>75,292</u>
Total board designated	<u>\$ 1,920,661</u>	<u>\$ 1,227,011</u>

Water Department

	<u>2013</u>	<u>2012</u>
Board Designated for:		
System improvements	\$ 709,145	\$ 720,041
Employee retirement	<u>60,000</u>	<u>60,000</u>
Total board designated	<u>\$ 769,145</u>	<u>\$ 780,041</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2013 and 2012

NOTE E - DEPOSITS AND INVESTMENTS

The Utilities' deposits at December 31, 2013 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Utilities or their agent in the Utilities' name. Investments are stated as indicated in Note A.

The Utilities are authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Electric Department's investments at December 31 are as follows:

	<u>2013</u>	<u>2012</u>
Invested Funds:		
Certificates of Deposit	\$ 1,530,000	\$ 1,530,000
Other Interest Bearing Accounts	2,114,571	1,164,534
Note receivable	115,003	--
Interest Receivable	<u>2,322</u>	<u>3,628</u>
Total Investments	<u>\$ 3,761,896</u>	<u>\$ 2,698,162</u>
Special Purpose Funds:		
Restricted	\$ 1,841,235	\$ 1,471,151
Board Designated	<u>1,920,661</u>	<u>1,227,011</u>
Total Special Purpose Funds	<u>\$ 3,761,896</u>	<u>\$ 2,698,162</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2013 and 2012

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The Water Department's investments at December 31 are as follows:

	<u>2013</u>	<u>2012</u>
Invested Funds:		
Certificates of Deposit	\$ 500,000	\$ 500,000
Other Interest Bearing Accounts	267,580	278,350
Interest Receivable	<u>1,565</u>	<u>1,691</u>
Total Investments	<u>\$ 769,145</u>	<u>\$ 780,041</u>
Special Purpose Funds:		
Board Designated	<u>\$ 769,145</u>	<u>\$ 780,041</u>

The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Utilities.

NOTE F - FAIR VALUE MEASUREMENTS

The Utilities' note receivable is reported at fair value in the accompanying statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Utilities uses appropriate valuation techniques based on the available inputs to measure the fair value of its note receivable. When available, the Utilities measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 1 or 2 inputs were available to the Utilities, therefore, Level 3 inputs were used to value its note receivable at December 31, 2013 and 2012.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2013 and 2012

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Level 3 Fair Value Measurements

The Electric Utility's note receivable is not actively traded and significant other observable inputs are not available. The fair value of the note receivable is based on contract value. Level 3 fair value for the note receivable was \$115,003 at December 31, 2013 (\$ - 0 - at December 31, 2012). Management believes these values approximate current fair value.

The following table reconciles the beginning and ending balances of fair value measurement for the Utilities' Level 3 asset using unobservable inputs for the years ended December 31, 2013 and 2012:

December 31, 2013

Beginning balance	\$ --
Note receivable	121,003
Collections on note receivable	<u>(6,000)</u>
Ending balance	<u>\$ 115,003</u>

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals, and balances for the years ended December 31, 2013 and 2012 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2013</u>
<u>Electric Department</u>				
Plant and Equipment	\$ 47,720,411	\$ 1,846,671	\$ 517,816	\$ 49,049,266
Depreciation	<u>27,773,767</u>	<u>1,341,737</u>	<u>505,641</u>	<u>28,609,863</u>
Depreciable Capital Assets, Net	<u>\$ 19,946,644</u>	<u>\$ 504,934</u>	<u>\$ 12,175</u>	<u>\$ 20,439,403</u>
Construction in Progress	\$ 2,063,205	\$ 1,071,479	\$ 1,846,671	\$ 1,288,013
Land and Land Rights	<u>639,970</u>	<u>--</u>	<u>--</u>	<u>639,970</u>
Non-Depreciable Capital Assets	<u>\$ 2,703,175</u>	<u>\$ 1,071,479</u>	<u>\$ 1,846,671</u>	<u>\$ 1,927,983</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2013 and 2012

NOTE G - CAPITAL ASSETS - Continued

	<u>Balance 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2012</u>
<u>Electric Department</u>				
Plant and Equipment	\$ 46,782,743	\$ 966,289	\$ 28,621	\$ 47,720,411
Depreciation	<u>26,474,265</u>	<u>1,327,711</u>	<u>28,209</u>	<u>27,773,767</u>
Depreciable Capital Assets, Net	<u>\$ 20,308,478</u>	<u>\$ (361,422)</u>	<u>\$ 412</u>	<u>\$ 19,946,644</u>
Construction in Progress	\$ 1,610,475	\$ 1,395,856	\$ 943,126	\$ 2,063,205
Land and Land Rights	<u>639,970</u>	<u>--</u>	<u>--</u>	<u>639,970</u>
Non-Depreciable Capital Assets	<u>\$ 2,250,445</u>	<u>\$ 1,395,856</u>	<u>\$ 943,126</u>	<u>\$ 2,703,175</u>
	<u>Balance 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2013</u>
<u>Water Department</u>				
Plant and Equipment	\$ 9,608,007	\$ 329,815	\$ 250,084	\$ 9,687,738
Depreciation	<u>5,386,679</u>	<u>170,172</u>	<u>245,096</u>	<u>5,311,755</u>
Depreciable Capital Assets, Net	<u>\$ 4,221,328</u>	<u>\$ 159,643</u>	<u>\$ 4,988</u>	<u>\$ 4,375,983</u>
Construction in Progress	\$ 22,916	\$ 320,477	\$ 329,529	\$ 13,864
Land and Land Rights	<u>55,837</u>	<u>--</u>	<u>--</u>	<u>55,837</u>
Non-Depreciable Capital Assets	<u>\$ 78,753</u>	<u>\$ 320,477</u>	<u>\$ 329,529</u>	<u>\$ 69,701</u>
	<u>Balance 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2012</u>
<u>Water Department</u>				
Plant and Equipment	\$ 9,427,495	\$ 195,964	\$ 15,452	\$ 9,608,007
Depreciation	<u>5,191,929</u>	<u>199,492</u>	<u>4,742</u>	<u>5,386,679</u>
Depreciable Capital Assets, Net	<u>\$ 4,235,566</u>	<u>\$ (3,528)</u>	<u>\$ 10,710</u>	<u>\$ 4,221,328</u>
Construction in Progress	\$ --	\$ 218,520	\$ 195,604	\$ 22,916
Land and Land Rights	<u>55,837</u>	<u>--</u>	<u>--</u>	<u>55,837</u>
Non-Depreciable Capital Assets	<u>\$ 55,837</u>	<u>\$ 218,520</u>	<u>\$ 195,604</u>	<u>\$ 78,753</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2013 and 2012

NOTE H - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Electric Department non-current liabilities for the years ended December 31, 2013 and 2012 follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2013</u>
2007 Capital Loan Notes	\$ 6,345,000	\$ --	\$ 525,000	\$ 5,820,000
Less Current Portion	<u>(525,000)</u>	<u>(545,000)</u>	<u>(525,000)</u>	<u>(545,000)</u>
Long-Term Debt, Net	5,820,000	(545,000)	--	5,275,000
Consumer Deposits, Net	88,707	3,741	--	92,448
Reserve for Employee Retirement	130,340	19,382	--	149,722
Accrued OPEB	<u>--</u>	<u>49,492</u>	<u>--</u>	<u>49,492</u>
Total Non-Current Liabilities	<u>\$ 6,039,047</u>	<u>\$ (472,385)</u>	<u>\$ --</u>	<u>\$ 5,566,662</u>

	<u>Balance 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2012</u>
2007 Capital Loan Notes	\$ 6,850,000	\$ --	\$ 505,000	\$ 6,345,000
Less Current Portion	<u>(505,000)</u>	<u>(525,000)</u>	<u>(505,000)</u>	<u>(525,000)</u>
Long-Term Debt, Net	6,345,000	(525,000)	--	5,820,000
Consumer Deposits, Net	80,222	8,485	--	88,707
Reserve for Employee Retirement	<u>113,000</u>	<u>17,340</u>	<u>--</u>	<u>130,340</u>
Total Non-Current Liabilities	<u>\$ 6,538,222</u>	<u>\$ (499,175)</u>	<u>\$ --</u>	<u>\$ 6,039,047</u>

Series 2007 Capital Loan Notes

The 2007 Series Capital Loan Notes constitute a lien on the net income of the Electric Department. They are not general obligations of the City of Atlantic. The notes mature in increasing amounts ranging from \$525,000 in 2013 to \$760,000 in 2022. Interest rates range from 3.75% to 4.30%. The part of these notes maturing after April 1, 2016 are subject to early redemption on or after that date.

The annual debt service on the notes is expected to require less than 35% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$771,600 and \$2,268,000, respectively.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2013 and 2012

NOTE H - ELECTRIC DEPARTMENT NON-CURRENT LIABILITIES - Continued

The resolutions of the Board of Trustees authorizing the issuance of the 2007 Electric Capital Loan Notes specify the creation and maintenance of a sinking fund, a debt service reserve fund, a capital improvement fund, and a surplus fund. Funding requirements have been fulfilled with the only remaining requirement being monthly accumulation of principal and interest for the next due date. Principal and interest payments required on Electric Department long-term debt during each of the five years ending December 31, 2014 through 2018 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 545,000	\$ 226,433	\$ 771,433
2015	570,000	205,105	775,105
2016	590,000	182,628	772,628
2017	615,000	158,976	773,976
2018	640,000	133,870	773,870
2019-2022	<u>2,860,000</u>	<u>249,945</u>	<u>3,109,945</u>
	<u>\$ 5,820,000</u>	<u>\$ 1,156,957</u>	<u>\$ 6,976,957</u>

NOTE I - WATER DEPARTMENT NON-CURRENT LIABILITIES

A schedule of changes in Water Department non-current liabilities for the years ended December 31, 2013 and 2012 follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2013</u>
Due to Electric Department				
Non-interest bearing note \$	495,855	\$ --	\$ --	\$ 495,855
Interest bearing note	<u>435,000</u>	<u>--</u>	<u>--</u>	<u>435,000</u>
	930,855	--	--	930,855
Less current portion	<u>(220,000)</u>	<u>135,571</u>	<u>--</u>	<u>(84,429)</u>
Long-term due to Electric Department	710,855	135,571	--	846,426
Consumer Deposits, Net	18,733	--	339	18,394
Reserve for Employees'				
Retirement	44,609	--	7,188	37,421
Accrued OPEB	<u>--</u>	<u>12,373</u>	<u>--</u>	<u>12,373</u>
Total Non-Current Liabilities	<u>\$ 774,197</u>	<u>\$ 147,944</u>	<u>\$ 7,527</u>	<u>\$ 914,614</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2013 and 2012

NOTE I - WATER DEPARTMENT NON-CURRENT LIABILITIES - Continued

	<u>Balance 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2012</u>
Due to Electric Department				
Non-interest bearing note \$	495,855	\$ --	\$ --	\$ 495,855
Interest bearing note	<u>640,000</u>	<u>--</u>	<u>205,000</u>	<u>435,000</u>
	1,135,855	--	205,000	930,855
Less current portion	<u>(205,000)</u>	<u>(220,000)</u>	<u>(205,000)</u>	<u>(220,000)</u>
Long-term due to Electric Department	930,855	(220,000)	--	710,855
Consumer Deposits, Net	17,505	1,228	--	18,733
Reserve for Employees' Retirement	<u>54,000</u>	<u>--</u>	<u>9,391</u>	<u>44,609</u>
Total Non-Current Liabilities	<u>\$ 1,002,360</u>	<u>\$ (218,772)</u>	<u>\$ 9,391</u>	<u>\$ 774,197</u>

The non-interest bearing note payable to the Electric Department represents a temporary transfer of funds as part of the financing for a water improvement project. The note is non-interest bearing and is due in 2022. It is subordinate to any bonds or other debt obligations payable from revenues of the Water Department.

The interest bearing note payable to the Electric Department resulted when the Electric Department paid off the Water Department Capital Loan Notes in 2009. The Utilities Board originally replaced the debt with a note from Water to Electric bearing similar (4.75% to 4.90%) interest rates, and maturing over three years. During both 2010 and 2011 the Board deferred payments on the note to the next three year period. In 2011 the Board reduced the interest rate on the Note to 1.5%. In December, 2012, the Board established a five year payment schedule to pay-off this note. Principal and interest payments currently required on Water Department long-term debt during subsequent years are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 84,429	\$ 6,525	\$ 90,954
2015	85,695	5,259	90,954
2016	86,981	3,973	90,954
2017	88,285	2,669	90,954
2018	89,610	1,344	90,954
2022	<u>495,855</u>	<u>--</u>	<u>495,855</u>
	<u>\$ 930,855</u>	<u>\$ 19,770</u>	<u>\$ 950,625</u>

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2013 and 2012

NOTE J- EMPLOYEE RETIREMENT AND DEFINED BENEFIT PENSION PLAN

Reserve For Employees' Retirement

Under rules adopted by the Board of Trustees, upon retirement, employees are eligible to receive payments based on accumulated but unused sick leave credits. Payments based on unused sick leave credits are also payable to a named beneficiary if a retiree dies before receiving all benefits earned.

Iowa Public Employees Retirement System

The Utilities contribute to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.95% (5.78% through June 30, 2013) of their annual salary and the Utilities are required to contribute 8.93% (8.67% through June 30, 2013) of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the years ended December 31, 2013, 2012, and 2011, were approximately \$ 173,500, \$161,600, and \$138,900, respectively, equal to the required contributions for each year.

NOTE K - DEFERRED COMPENSATION PLAN

The Utilities sponsor a deferred compensation plan which is administered by two trustees (the General Manager and Comptroller of the Utilities) and independent contractors under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Utilities are responsible for:

- a. The accounting, reconciliations and recordkeeping associated with employees' enrollment.
- b. Withholding employee contributions through payroll deductions.
- c. Timely transfer of withheld funds to the contractor designated by the participant, for investment.
- d. Payout of the deferred compensation to qualified participants after receiving proceeds from the administrators.
- e. Withholding payroll taxes from plan payouts.
- f. Preparation of 1099's resulting from plan payouts.

The Utilities' fiduciary responsibilities include due care in selecting administrators, and indemnification of the trustees.

The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The contractors are required to submit monthly reports on participants' accounts to the Utilities. The Utilities are liable to a participant only for mishandled employee contributions or payouts, and the related loss of income to the participants. The market values of the exclusive benefit plan assets at December 31, 2013 were approximately \$541,380.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2013 and 2012

NOTE L - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description. AMU operates a single-employer retiree benefit plan which provides medical/dental benefits for retirees and their spouses. There are 31 active and 5 retired members in the plan. Participants must be age 55 or older at retirement.

Retirees under age 65 pay the same premium for the medical/dental benefit as active employees, which results in an implicit subsidy. The explicit and implicit subsidy results in an OPEB liability.

Funding Policy. The contribution requirements of plan members are established and may be amended by AMU. AMU currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation. AMU's annual OPEB cost is calculated based on the annual required contribution (ARC) of AMU, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the AMU's annual OPEB cost for the year ended December 31, 2013, the amount actually contributed to the plan and changes in AMU's net OPEB obligation:

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Annual OPEB cost	\$ 49,492	\$ 12,373	\$ 61,865
Net OPEB obligation beginning of year	<u>--</u>	<u>--</u>	<u>--</u>
Net OPEB obligation end of year	<u>\$ 49,492</u>	<u>\$ 12,373</u>	<u>\$ 61,865</u>

For calculation of the net OPEB obligation, the actuary has set the measurement date as September 1, 2013. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended December 31, 2013.

For the year ended December 31, 2013, AMU has not designated specific funds for the OPEB liability.

Funded Status and Funding Process. As of December 31, 2013, the most recent actuarial valuation date for the period from January 1, 2013 through December 31, 2013, the actuarial accrued liability was \$534,025, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$534,025. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1.9 million and the ratio of the UAAL to covered payroll was 28.5% for 2013. As of December 31, 2013, there were no trust fund assets.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2013 and 2012

NOTE L - OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of September 1, 2013, the actuarial measurement date, the Alternative Measurement Method was used. The actuarial assumptions include a 4.5% discount rate based on AMU's funding policy. The projected annual health care cost trend rate is 10%. The ultimate health care cost trend rate is 6%. The health care cost trend rate is reduced 1.0% each year until reaching the 6% ultimate trend rate.

Mortality rates are from the 2009 United States Life Tables. Annual retirement and termination probabilities were developed based on historical averages for the covered.

Projected claim costs of the medical plan are \$10,966 for retirees (\$11,217 for spouses) less than age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

NOTE M - COMMITMENTS AND CONTINGENCIES

Power Supply

The Electric Utility participates with several other utility companies in the operation of the Walter Scott Energy Center No. 3 (WS #3) to supply power. The project represents an ongoing commitment to provide operating and construction funds as they are needed to maintain and update the facility. The share applicable to Atlantic is approximately 2.5% of the total costs. Periodically WS #3 shuts down production for several weeks for major maintenance and repairs. The last shutdown occurred during 2009 and the next is currently scheduled for 2015. During the alternate years when no shutdown occurs, the Electric Utility accrues an estimate of the pro rata annual expense it will incur related to this shutdown (\$200,000 total accrued at December 31, 2013 included in accounts payable). During the shutdown, the Electric Utility purchases replacement electricity on the open market.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2013 and 2012

NOTE M - COMMITMENTS AND CONTINGENCIES - Continued

Of the Electric Department's construction in progress, approximately \$916,000 represents the Utility's share of ongoing construction projects at WS #3. These projects have an estimated cost to complete of \$34,000. The Utility financed the costs of these projects through funds generated internally.

Approximately \$368,000 of the Electric Department construction in progress at December 31, 2013 consists of several ongoing local projects. The largest of these is the installation of smart meters (\$290,000). Estimated costs to complete the projects are approximately \$255,000. The projects will be financed through internally generated funds.

Water Department Construction in Progress

The Water Department construction in progress of approximately \$14,000 is for costs related to GPS mapping of the service lines.

Iowa Municipal Utilities Shared Projects

Transmission Lines - The Electric Utility has joined with other Municipal Utilities in Iowa to form the Iowa Public Power Agency (IPPA). IPPA is a 28E Agreement organization which was formed to enable small Municipal Utilities in Iowa to own a share of electric transmission lines. The Electric Utility provided a part of the original operating and equity funding (currently accounted for as a part of other assets) for an IPPA \$3.5 million share of a transmission line project, in partnership with MidAmerican Energy. The transmission line was put into service in early 2010. During 2013, the Electric Utility provided \$60,813 of operating funding to the project. That amount was returned to the Utility. It is expected that, each year, the Electric Utility will provide similar amounts of operating funding to the project, with net proceeds of the operation returned based on its pro rata share of the operation's net income.

Wind Farm - The Electric Utility has joined with other Iowa Municipal Utilities to form the Iowa Agency for Municipal Wind (IAMWind). IAMWind is a 28E Agreement organization originally formed to enable small Municipal Utilities to develop a wind energy project for the benefit of members. Currently the project has been suspended, prior to the construction phase, as members assess the market for electricity and wind generation projects. The Electric Utility has invested \$64,573 in the project which is reported as a part of Electric project investments for 2013.

ATLANTIC MUNICIPAL UTILITIES
Notes to Financial Statements
December 31, 2013 and 2012

NOTE L - COMMITMENTS AND CONTINGENCIES - Continued

Risk Management

The Utilities are exposed to common business risks of loss. These risks are covered to the extent practical by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Environmental Regulations

The Utilities are subject to various federal and state environmental regulations. These regulations are continuously revised and updated, resulting in ongoing compliance requirements. Management has determined that the facility is currently in compliance with the applicable regulations. The Utilities anticipate that any future cost incurred relating to environmental regulations will be recovered through rates charged to customers.

Subsequent Events

The Utilities has evaluated all subsequent events through March 7, 2014, the date the financial statements were available to be issued.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

ATLANTIC MUNICIPAL UTILITIES
Budgetary Comparison Schedule
Year Ended December 31, 2013

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustments result from accounting for debt payments, capital grants received, and net assets differently for financial statement and budget purposes.

	<u>Per Financial Statements</u>		<u>Budget</u>	<u>Combined</u>
	<u>Electric</u>	<u>Water</u>	<u>Adjustments</u>	<u>Utilities</u>
Revenues	\$ 10,415,881	\$ 1,409,373	\$ (395,576)	\$ 11,429,678
Expenses	<u>9,356,608</u>	<u>1,299,481</u>	<u>545,000</u>	<u>11,201,089</u>
Net	1,059,273	109,892	(940,576)	228,589
Balance beginning of year	22,113,770	4,233,283	(20,742,619)	5,604,434
Contributions	<u>--</u>	<u>345</u>	<u>(345)</u>	<u>--</u>
Balance end of year	<u>\$ 23,173,043</u>	<u>\$ 4,343,520</u>	<u>\$ (21,683,540)</u>	<u>\$ 5,833,023</u>

	<u>Budget</u>	<u>Budget</u>	<u>Variance</u>
	<u>Basis</u>	<u>Budget</u>	<u>Favorable</u>
			<u>(Unfavorable)</u>
Revenues	\$ 11,429,678	\$ 11,640,000	\$ (210,322)
Expenses	<u>11,201,089</u>	<u>12,071,000</u>	<u>869,911</u>
Net	228,589	(431,000)	659,589
Balance beginning of year	<u>5,604,434</u>	<u>4,696,894</u>	<u>907,540</u>
Balance end of year	<u>\$ 5,833,023</u>	<u>\$ 4,265,894</u>	<u>\$ 1,567,129</u>

See Independent Auditor's Report.

OTHER SUPPLEMENTARY INFORMATION

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Revenue Bonds/Notes
December 31,

<u>Due Date</u>	<u>Optional Call Date</u>	<u>Interest Rate</u>	<u>2013</u>	<u>2012</u>
<u>2007 Series</u>				
April 1, 2013	--	3.75%	\$ --	\$ 525,000
April 1, 2014	--	3.80	545,000	545,000
April 1, 2015	--	3.85	570,000	570,000
April 1, 2016	--	3.90	590,000	590,000
April 1, 2017	April 1, 2016	3.95	615,000	615,000
April 1, 2018	April 1, 2016	4.05	640,000	640,000
April 1, 2019	April 1, 2016	4.15	670,000	670,000
April 1, 2020	April 1, 2016	4.20	700,000	700,000
April 1, 2021	April 1, 2016	4.25	730,000	730,000
April 1, 2022	April 1, 2016	4.30	760,000	760,000
			<u>\$ 5,820,000</u>	<u>\$ 6,345,000</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
Operating Revenue
Year ended December 31,

	<u>2013</u>	<u>2012</u>
<u>ELECTRIC DEPARTMENT</u>		
Retail Electricity Sales:		
Residential	\$ 2,412,526	\$ 2,292,214
Commercial	3,532,384	3,307,440
Rural resident and rural commercial	1,317,794	1,207,619
Interdepartmental sales	<u>48,910</u>	<u>38,650</u>
	<u>\$ 7,311,614</u>	<u>\$ 6,845,923</u>
Other Operating Revenue:		
Customer late payment charges	\$ 12,156	\$ 17,174
Service charges	15,553	15,456
Rent from electric properties	10,910	10,025
Net contract work	27,129	6,238
Transmission service	1,126,347	662,703
Scrap sales	9,711	11,368
Bad debts recovered	5,337	2,607
Miscellaneous	8,138	235
Posting charges	<u>20,680</u>	<u>13,240</u>
	<u>\$ 1,235,961</u>	<u>\$ 739,046</u>
<u>WATER DEPARTMENT</u>		
Other Operating Revenue:		
Service charges	\$ 13,509	\$ 7,411
Net contract work	59,604	15,156
Scrap sales	838	--
Bad debts recovered	1,270	922
Miscellaneous	<u>7,033</u>	<u>2,874</u>
	<u>\$ 82,254</u>	<u>\$ 26,363</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Operating Expenses
Year ended December 31,

	<u>2013</u>	<u>2012</u>
Electric Production:		
WS #3 Production:		
Operating supervision and labor	\$ 93,228	\$ 95,954
Fuel	1,713,098	1,479,612
Operating supplies and expense	190,400	184,631
Maintenance of production plant	<u>494,504</u>	<u>480,071</u>
Total WS #3 production	2,491,230	2,240,268
Atlantic Production:		
Operating supervision and labor	18,358	17,982
Fuel	28,460	18,276
Operating supplies and expense	4,339	1,531
Maintenance of production plant	<u>161,168</u>	<u>112,620</u>
Total Atlantic production	<u>212,325</u>	<u>150,409</u>
Total electric production	2,703,555	2,390,677
Purchased Power	1,505,266	1,507,776
Transmission Expense:		
Maintenance of transmission line and other	984,526	924,963
Distribution Expense:		
City:		
Operating supervision and labor	227,195	129,592
Line and station supplies and expense	69,048	132,031
Meter expense	2,657	12,292
Miscellaneous distribution expense	125,980	91,890
Maintenance of structures and equipment	22,238	18,886
Maintenance of lines	192,481	136,767
Maintenance of line transformers	9,004	7,901
Maintenance of street lighting and signal systems	22,989	26,096
Maintenance of meters	<u>33,788</u>	<u>12,548</u>
Total city distribution expense	705,380	568,003
Rural:		
Operating supervision and labor	120,713	56,513
Line and station supplies and expense	611	339
Miscellaneous distribution expense	7,519	13,455
Maintenance of structures and equipment	14,007	13,356
Maintenance of lines	113,857	88,623

(continued next page)

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Operating Expenses - Continued
Year ended December 31,

	<u>2013</u>	<u>2012</u>
Distribution Expense (Continued):		
Rural (Continued):		
Maintenance of line transformers	\$ 2,939	\$ 3,369
Maintenance of meters	<u>6,767</u>	<u>4,761</u>
Total rural distribution expense	<u>266,413</u>	<u>180,416</u>
Total distribution expense	971,793	748,419
Administrative and Accounting Expense:		
Customer accounting:		
Meter reading labor	37,233	32,495
Accounting and collecting costs	127,371	123,978
Supplies and expense	44,474	4,153
Uncollectible accounts	<u>15,797</u>	<u>7,610</u>
Total customer accounting	224,875	168,236
Administrative and general:		
Administrative and general salaries	65,467	85,706
Disability	11,080	1,197
Office supplies and expense	61,439	37,386
Outside service employed	15,289	43,927
Property insurance	63,767	58,041
Liability insurance and safety program costs	96,190	91,811
Employees' pension and benefits	469,243	496,527
Payment in lieu of tax	379,992	369,040
Regulatory commission expense	16,132	12,879
Internet	5,331	4,808
Energy efficiency grant/rebate program	24,636	53,637
Miscellaneous general expense	85,416	94,048
Maintenance of general plant	16,572	40,084
Property taxes	<u>121,133</u>	<u>126,062</u>
Total administrative and general	1,431,687	1,515,153
Administrative adjustments	15,036	95,905
Less administrative expense transferred	<u>(86,584)</u>	<u>(89,911)</u>
Net administrative and general	<u>1,360,139</u>	<u>1,521,147</u>
Total administrative and accounting expense	1,585,014	1,689,383
Provision for Depreciation	<u>1,341,737</u>	<u>1,327,711</u>
Total operating expenses	<u>\$ 9,091,891</u>	<u>\$ 8,588,929</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Operating Expenses
Year ended December 31,

	<u>2013</u>	<u>2012</u>
Source of Supply Expense:		
Operating supplies and expense	\$ 18,352	\$ 10,843
Maintenance of water source	<u>28,412</u>	<u>26,633</u>
Total source of supply expense	46,764	37,476
Pumping Expense:		
Operating labor	27,404	18,835
Fuel and power pumping	28,226	22,761
Maintenance of pumping station	<u>5,352</u>	<u>5,417</u>
Total pumping expense	60,982	47,013
Water Treatment Expense:		
Operating labor	43,117	29,393
Chemicals	33,764	45,556
Operating supplies and expense	17,753	10,445
Maintenance of water treatment plant	<u>25,185</u>	<u>18,980</u>
Total water treatment expense	119,819	104,374
Distribution Expense:		
Operating labor	139,961	132,979
Operating supplies and expense	8,137	11,142
Maintenance of distribution reservoirs and standpipes	71,165	72,843
Maintenance of mains	114,140	80,281
Maintenance of services	288	454
Maintenance of meters	--	205
Maintenance of hydrants	<u>3,570</u>	<u>2,283</u>
Total distribution expense	337,261	300,187
Administrative and Accounting Expense:		
Customer Accounting:		
Meter reading labor	33,248	23,913
Accounting and collecting labor	49,904	45,059
Supplies and expense	27,683	12,627
Uncollectible accounts	<u>5,317</u>	<u>2,534</u>
Total customer accounting	116,152	84,133

(continued next page)

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Operating Expenses - Continued
Year ended December 31,

	<u>2013</u>	<u>2012</u>
Administrative and Accounting Expense (Continued):		
Administrative and General:		
Administrative and general salaries	\$ 43,988	\$ 38,428
Office supplies and other expense	35,637	22,815
Outside service employed	9,216	16,093
Property insurance	18,561	15,796
Liability insurance costs	30,544	25,879
Employees' pensions and benefits	134,830	120,925
Payment in lieu of tax	144,455	170,350
Regulatory Commission expense	845	913
Miscellaneous general expense	12,585	40,719
Maintenance of general plant	<u>5,570</u>	<u>2,224</u>
Total administrative and general	436,231	454,142
Administrative adjustments	4,146	(723)
Less administrative expense transferred	<u>(3,583)</u>	<u>(22,191)</u>
Net administrative and general	<u>436,794</u>	<u>431,228</u>
Total administrative and accounting expense	552,946	515,361
Provision for Depreciation	<u>170,172</u>	<u>199,492</u>
Total operating expenses	<u>\$ 1,287,944</u>	<u>\$ 1,203,903</u>

See Independent Auditor's Report.

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Comparative Statements of Income
Year ended December 31,

	<u>2013</u>	<u>2012</u>
Operating Revenue:		
Sale of electricity	\$ 8,757,000	\$ 8,152,939
Other operating revenue	<u>1,235,961</u>	<u>739,046</u>
Total operating revenue	9,992,961	8,891,985
Operating Expenses (Not Including Depreciation)	<u>7,750,154</u>	<u>7,261,218</u>
Operating Income Before Depreciation	2,242,807	1,630,767
Provision for Depreciation	<u>1,341,737</u>	<u>1,327,711</u>
Income (Loss) From Operations	901,070	303,056
Other Income and (Deductions), Net	<u>158,203</u>	<u>(25,639)</u>
Net Income (Loss)	<u>\$ 1,059,273</u>	<u>\$ 277,417</u>
Net Income (Loss) as a Percent of Total Operating Revenue	<u>10.60%</u>	<u>3.12%</u>

See Independent Auditor's Report.

<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 7,663,316	\$ 7,839,172	\$ 7,131,217
<u>363,792</u>	<u>449,308</u>	<u>625,499</u>
8,027,108	8,288,480	7,756,716
<u>6,761,216</u>	<u>6,974,527</u>	<u>6,549,633</u>
1,265,892	1,313,953	1,207,083
<u>1,325,352</u>	<u>1,366,370</u>	<u>1,161,183</u>
(59,460)	(52,417)	45,900
<u>(230,627)</u>	<u>(228,027)</u>	<u>(66,284)</u>
<u>\$(290,087)</u>	<u>\$(280,444)</u>	<u>\$(20,384)</u>
<u>(3.61%)</u>	<u>(3.38%)</u>	<u>(0.26%)</u>

ATLANTIC MUNICIPAL UTILITIES
ELECTRIC DEPARTMENT
Comparative Summaries of Electricity Distributed and Billed
Year ended December 31,

	<u>2013</u>	<u>2012</u>
Sale of Electricity:		
Sales to consumers	\$ 7,691,606	\$ 7,214,963
Sales to other utilities	<u>1,065,394</u>	<u>937,976</u>
Total Electricity Sales	<u>\$ 8,757,000</u>	<u>\$ 8,152,939</u>
Kilowatt Hours:		
Generated	121,591,870	126,461,463
Purchased	35,566,000	38,331,000
Energy available	157,157,870	164,792,463
Station power/transmission loss	1,706,352	1,329,989
Available for sale	155,451,518	163,462,474
Sales and transfers to other utilities	42,314,730	51,306,253
Output to the system	113,136,788	112,156,221
Billed to consumers	108,074,896	106,708,722
Distribution loss	5,061,892	5,447,499
Distribution loss percent	4.5%	4.9%
Revenue Billed Per KWH to Consumers	7.11¢	6.82¢
Peak Hour Demand in KW	24,000	26,300
Services Provided to the City:		
Street Lighting:		
Energy	\$ 80,414	\$ 73,802
Operation and maintenance	26,788	31,259
Depreciation	<u>37,001</u>	<u>37,544</u>
	144,203	142,605
Energy for public buildings, parks and other uses	<u>235,789</u>	<u>226,435</u>
	<u>\$ 379,992</u>	<u>\$ 369,040</u>
<u>Consumer Classifications</u>		
Residential	3,247	3,273
Small Commercial	594	598
Large Commercial	32	34
Rural Residential	565	567
Rural Commercial	97	96
Area Lighting	301	298
City and Water Department	<u>86</u>	<u>84</u>
Total number of consumers	<u>4,922</u>	<u>4,950</u>

See Independent Auditor's Report.

<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 6,451,509	\$ 6,245,879	\$ 5,663,105
<u>1,211,807</u>	<u>1,593,293</u>	<u>1,468,112</u>
\$ <u>7,663,316</u>	\$ <u>7,839,172</u>	\$ <u>7,131,217</u>
131,848,627	135,331,763	112,652,715
44,504,000	42,567,000	54,701,242
176,352,627	177,898,763	167,353,957
1,938,501	2,208,344	5,311,630
174,414,126	175,690,419	162,042,327
60,866,627	62,960,863	55,485,400
113,547,499	112,729,556	106,556,927
108,943,490	108,085,496	102,042,813
4,604,009	4,644,060	4,514,114
4.1%	4.1%	4.2%
5.92¢	5.78¢	5.55¢
25,500	25,100	25,287
\$ 67,396	\$ 70,201	\$ 67,827
32,333	43,740	33,709
<u>36,323</u>	<u>35,260</u>	<u>35,379</u>
136,052	149,201	136,915
<u>186,283</u>	<u>190,032</u>	<u>175,250</u>
\$ <u>322,335</u>	\$ <u>339,233</u>	\$ <u>312,165</u>
3,264	3,254	3,260
598	589	578
34	36	39
567	568	572
97	95	93
293	289	291
<u>89</u>	<u>90</u>	<u>89</u>
<u>4,942</u>	<u>4,921</u>	<u>4,922</u>

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Comparative Statements of Income
Year ended December 31,

	<u>2013</u>	<u>2012</u>
Operating Revenue:		
Sale of water	\$ 1,308,701	\$ 1,289,602
Other operating revenue	<u>82,254</u>	<u>26,363</u>
Total operating revenue	1,390,955	1,315,965
Operating Expenses (Not Including Depreciation)	<u>1,117,772</u>	<u>1,004,411</u>
Operating Income Before Depreciation	273,183	311,554
Provision for Depreciation	<u>170,172</u>	<u>199,492</u>
Income (Loss) From Operations	103,011	112,062
Other Income (Deductions), Net	<u>6,881</u>	<u>(6,805)</u>
Net Income (Loss)	<u>\$ 109,892</u>	<u>\$ 105,257</u>
Net Income (Loss) as a Percent of Total Operating Revenue	<u>7.90%</u>	<u>8.00%</u>

See Independent Auditor's Report.

<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 1,145,074	\$ 1,102,274	\$ 1,005,857
<u>19,912</u>	<u>9,822</u>	<u>9,314</u>
1,164,986	1,112,096	1,015,171
<u>806,396</u>	<u>800,850</u>	<u>860,733</u>
358,590	311,246	154,438
<u>191,762</u>	<u>223,084</u>	<u>227,103</u>
166,828	88,162	(72,665)
<u>(26,570)</u>	<u>(21,344)</u>	<u>(23,264)</u>
<u>\$ 140,258</u>	<u>\$ 66,818</u>	<u>\$(95,929)</u>
<u>12.04%</u>	<u>6.01%</u>	<u>(9.45%)</u>

ATLANTIC MUNICIPAL UTILITIES
WATER DEPARTMENT
Comparative Summaries of Water Pumped and Billed
Year ended December 31,

	<u>2013</u>	<u>2012</u>
Total Revenue Billed	\$ <u>1,308,702</u>	\$ <u>1,289,602</u>
Gallage:		
Pumped	307,177,000	337,668,000
Billed	267,238,154	281,627,100
Total system maintenance and loss	39,938,846	56,040,900
Accounted for losses*	18,045,267	19,435,197
Unaccounted for losses	21,893,579	36,605,703
Percent unaccounted for	7.13%	10.84%
Revenue Billed Per 100 Gallons	49.0¢	45.8¢
Number of Consumers	3,354	3,367
Peak Day - Gallons Pumped	1,574,000	1,641,000
Services Provided to the City:		
Water for parks, disposal plant and public buildings	\$ 15,261	\$ 36,308
Operation and maintenance	85,973	75,880
Depreciation	<u>43,221</u>	<u>58,162</u>
	<u>\$ 144,455</u>	<u>\$ 170,350</u>

* Includes water used in flushing mains, washing streets, fire department drills, fighting fires, and estimate of known main and customer service line breaks.

See Independent Auditor's Report.

<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>\$ 1,145,074</u>	<u>\$ 1,102,274</u>	<u>\$ 1,005,857</u>
301,690,000	290,927,000	299,088,000
246,890,600	237,000,400	242,703,075
54,799,400	53,926,600	56,384,925
13,791,159	28,042,899	16,029,963
41,008,241	25,883,701	40,354,962
13.59%	8.90%	13.49%
46.4¢	46.5¢	41.4¢
3,341	3,337	3,338
1,675,000	1,380,000	1,530,000
\$ 14,879	\$ 12,473	\$ 11,852
35,253	31,799	39,683
<u>41,827</u>	<u>40,640</u>	<u>40,563</u>
<u>\$ 91,959</u>	<u>\$ 84,912</u>	<u>\$ 92,098</u>

ATLANTIC MUNICIPAL UTILITIES
Net Income Available For Debt Service
Year ended December 31,

	<u>2013</u>	<u>2012</u>
<u>ELECTRIC DEPARTMENT</u>		
Net Income Per Financial Statements	\$ 1,059,273	\$ 277,417
Add:		
Depreciation	1,341,737	1,327,711
Interest on revenue bonds	241,709	261,146
Gain on disposal of equipment	12,175	412
Amortization	9,238	10,045
Capital and restricted grants	<u>(395,921)</u>	<u>(213,601)</u>
Available For Debt Service	<u>\$ 2,268,211</u>	<u>\$ 1,663,130</u>
Maximum Debt Service in Any Year	<u>\$ 778,405</u>	<u>\$ 778,405</u>
Actual Coverage	<u>291%</u>	<u>214%</u>
Minimum Coverage Required	<u>125%</u>	<u>125%</u>

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Atlantic Municipal Utilities
Atlantic, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of Atlantic Municipal Utilities as of and for the years ended December 31, 2013 and 2012, and the related Notes to Financial Statements, and have issued our report thereon dated March 7, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Atlantic Municipal Utilities' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Atlantic Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Atlantic Municipal Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Utilities' financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees
Atlantic Municipal Utilities

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 13-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Atlantic Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted a certain immaterial instance of non-compliance or other matter that is described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Response to Findings

Atlantic Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Utilities' responses, we did not audit the Utilities' responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gmewold, Ben, Kyhn & Co. P.C.

Atlantic, Iowa
March 7, 2014

ATLANTIC MUNICIPAL UTILITIES
Schedule of Findings
Year ended December 31, 2013

PART I - INTERNAL CONTROL DEFICIENCIES

13-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Utilities. However, this situation is common in small municipal utilities.

Recommendation: We recognize that it may not be economically feasible for the Utilities to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Utilities to employ additional personnel for this reason. We have initiated a policy of board member approval for all investment transactions. We have also segregated cash receipts, posting, and deposit functions to the extent practicable in our size of entity.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

13-II-A Certified Budget: The Utilities' expenditures during the year ended December 31, 2013 did not exceed amounts budgeted.

13-II-B Questionable Expenditures: During the audit, we noted no expenditures of the Utilities' funds without proper documentation of public purpose.

13-II-C Travel Expense: No expenditures of Utilities' money for travel expenses of spouses of Utilities' officials and/or employees were noted.

13-II-D Business Transactions: No business transactions between the Utilities and Utilities' officials and/or employees were noted.

13-II-E Bond Coverage: Surety bond coverage of the Utilities' officials and employees appears to be in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

13-II-F Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

ATLANTIC MUNICIPAL UTILITIES
Schedule of Findings - Continued
Year ended December 31, 2013

PART II - REQUIRED STATUTORY REPORTING (Continued)

13-II-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Utilities' investment policy.

13-II-H Revenue Bonds and Notes: No violations of revenue bond or revenue note resolution requirements were noted.

* * *